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MACKINAW CITY PUBLIC SCHOOLS  
BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009

**MACKINAW CITY PUBLIC SCHOOLS  
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## INDEPENDENT AUDITOR'S REPORT

October 2, 2009

Board of Education  
Mackinaw City Public Schools  
Mackinaw City, Michigan 49701

I have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mackinaw City Public Schools as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mackinaw City Public Schools' management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mackinaw City Public Schools, as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 2, 2009 on my consideration of Mackinaw City Public Schools' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Page 2  
September 8, 2009  
Board of Education  
Mackinaw City Public Schools

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 6 and on 23 through 25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mackinaw City Public Schools' basic financial statements. The introductory section, and combining non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



THOMAS R. ZICK CPA, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

# **MACKINAW CITY PUBLIC SCHOOLS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the Mackinaw City Public Schools District ("the District") Management's discussion and analysis of the financial results for the year ended June 30, 2009. The intent of this discussion and analysis is to provide a look at the district's performance and current position. Readers should also review the notes to the financial statements and financial statements to enhance their understanding of the district's financial performance.

### **FINANCIAL HIGHLIGHTS**

The overall financial condition of the district remains strong. All goals related to financial activities have been met in the past year. If current revenue and expenditure patterns can be maintained, the resources for the following year will be available.

The assets of the Mackinaw City Public Schools District exceeded its liabilities at the close of the most recent fiscal year by \$1,404,699 (net assets).

The district's total net assets increased by \$200,146 in the 2008/09 school year.

At the end of the current fiscal year, the fund balance for the District's General Fund is \$110,953.

### **USING THE ANNUAL REPORT**

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole (government-wide statements), and then proceed to provide an increasingly detailed look at specific financial statements (fund financial statements). Also included are various notes to the financial statements. The audit also contains supplemental information in addition to the basic financial statements.

### **Reporting the District as a Whole – The Statement of Net Assets and Statement of Activities**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the district as a whole and about its activities in a manner to help address this question. These statements include all assets and liabilities of the District using the accrual basis of accounting similar to the accounting used by the private sector. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The two statements report the District's net assets and any changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions on a State level, student enrollment growth, quality of local service, and facility improvements prior to arriving at any conclusion regarding the overall health of the District.

### **Reporting the District's Most Significant Funds**

#### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds, not the district as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". The two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the notes to the financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Governmental Funds

Most of the District's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental funds is reconciled in the basic financial statements.

### Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the District's net assets as of June 30, 2009 and 2008.

TABLE 1      Governmental Activities

<u>Assets</u>	<u>6/30/2009</u>	<u>6/30/2008</u>
Current Assets	\$ 1,196,825	\$ 702,600
Noncurrent Assets	<u>944,760</u>	<u>937,243</u>
Total Assets	<u>\$ 2,141,585</u>	<u>\$ 1,639,843</u>
<u>Liabilities</u>		
Current Liabilities	\$ 497,793	\$ 404,210
Noncurrent Liabilities	<u>239,093</u>	<u>31,080</u>
Total Liabilities	<u>\$ 736,886</u>	<u>\$ 435,290</u>
<u>Net Assets</u>		
Invested in Capital Assets - Net of Debt	\$ 944,760	\$ 937,243
Restricted	360,392	291,987
Unrestricted	<u>99,547</u>	<u>(24,677)</u>
Total Net Assets	<u>\$ 1,404,699</u>	<u>\$ 1,204,553</u>

The District currently reports positive balances in each category of net assets.

The results of this year's operations for the District as a whole are represented in a statement of activities (Table 2), which shows the changes in net assets for the fiscal year 2009 and 2008.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TABLE 2 Governmental Activities

	<u>6/30/2009</u>	<u>6/30/2008</u>
Program Revenues		
Charges for services	\$ 21,618	\$ 17,859
Operating grants and contributions	66,448	101,142
General Revenues		
Property taxes	2,292,593	2,167,118
State School Aid	102,944	30,889
Other and Interest	<u>20,220</u>	<u>45,896</u>
Total Revenues	<u>2,503,823</u>	<u>2,362,904</u>
Functions/Program Expenses		
Instruction	1,531,587	1,605,555
Supporting services	746,049	753,041
Food services	25,664	24,614
Interest on debt	<u>377</u>	<u>747</u>
Total Expenses	<u>2,303,677</u>	<u>2,383,957</u>
Change in Net Assets	<u>\$ 200,146</u>	<u>\$ (21,053)</u>

As reported in the statement of activities the cost of all governmental activities for the year was \$2,303,677 while \$2,292,593 in revenue was generated directly from local taxpayers, another \$21,618 was generated through "charges for actual services" to local districts, or individuals that benefited directly from our services. State, federal, other regional grants and programs brought \$66,448 to the district. The district received \$102,944 in state education funding and just over \$20,220 in other miscellaneous sources, inclusive of investment earnings. Net assets for the year ending June 30, 2009 increased by approximately \$200,146.

### **MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS**

The District's budgets are prepared in accordance to Michigan Law. The most significant budgeted fund is the General Fund. During the fiscal year of 2008/09 the District amended the budget numerous times. Due to the timing of grant awards and pupil counts, the general fund budget will change significantly from the beginning to the end of the year. The district's actual expenditures were \$63,153 less than budgeted expenditures.

#### General Fund

The General Fund revenues were greater than expenditures in the past year of operations by \$106,299. In anticipation of the state education budget crises and potential tax tribunal adjustments, the district must still watch its expenditures closely and make cuts where necessary.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### Capital Assets

The District's assets have accumulated \$2,091,574 of depreciation. Our capitalized assets include our buildings, land, equipment and transportation fleet. This year saw a \$7,517 increase in Net Capital Assets. A categorized listing of the assets is below.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**TABLE 3**      Mackinaw City Public Schools District Capital Assets

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2009</u>
Capital assets not being depreciated:				
Land	\$ 33,000	\$ -	\$ -	\$ 33,000
Construction in progress	-	6,905	-	6,905
Capital assets being depreciated:				
Land improvements	488,210	-	-	488,210
Building and building improvements	1,965,176	36,908	-	2,002,084
Buses and other vehicles	174,985	-	88,645	86,340
Furniture and equipment	<u>410,312</u>	<u>9,483</u>	<u>-</u>	<u>419,795</u>
Subtotal	<u>3,038,683</u>	<u>46,391</u>	<u>88,645</u>	<u>2,996,429</u>
Accumulated depreciation:				
Land improvements	483,876	333	-	484,209
Building and building improvements	1,132,608	31,299	-	1,163,907
Buses and other vehicles	155,853	9,977	88,645	77,185
Furniture and equipment	<u>362,103</u>	<u>4,170</u>	<u>-</u>	<u>366,273</u>
Subtotal	<u>2,134,440</u>	<u>45,779</u>	<u>88,645</u>	<u>2,091,574</u>
Net capital assets being depreciated	<u>904,243</u>	<u>612</u>	<u>-</u>	<u>904,855</u>
Net governmental capital assets	<u>\$ 937,243</u>	<u>\$ 7,517</u>	<u>\$ -</u>	<u>\$ 944,760</u>

Long Term Debt

During the year the voters approved a \$300,000 bond issue for the purpose of upgrading technology and purchasing buses. The School Board has agreed not to levy sinking fund taxes until the bond issue is paid.

The District owes \$300,000 in bonds which will be paid over the next three years. Details are shown in Note 7 to the financial statements.

The District employees have accumulated sick days, which if paid in their entirety at June 30, 2009 would cost the district \$29,093.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of the State of Michigan has dramatically slowed and forecasts project shortages in both the State's General Fund and the School Aid Fund for the upcoming year. The exact implications the shortages will have on the District are unknown. Our budgets were prepared with these factors in mind.

We previously were dependent on student counts for our foundation allowance, but our property tax revenue now exceeds the foundation so our revenue is primarily from the non-homestead property tax levy. The voters of the District approved a millage which eliminates the Headlee rollback for the fiscal year 2008/09 and 2009/10 years. However, substantial claims for tax assessment changes have been filed with the Michigan Tax Tribunal which could negatively impact our revenues.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Mackinaw City Public Schools District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Superintendent, Mackinaw City Public Schools, 609 West Central; Mackinaw City, MI 49701 or call 231-436-8211.



**MACKINAW CITY PUBLIC SCHOOLS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

	Governmental Activities
<b>ASSETS</b>	
Cash demand, time deposits, and investments	\$ 1,119,572
Receivables	
Accounts & Taxes	56,139
Other governments	21,114
Capital assets	
Land	39,905
Other capital assets, net of depreciation	904,855
<b>TOTAL ASSETS</b>	<b>2,141,585</b>
 <b>LIABILITIES</b>	
Account payable	216,524
Accrued liabilities	191,269
Noncurrent liabilities:	
Due within one year	90,000
Due in more than one year	210,000
Compensated absences	29,093
<b>TOTAL LIABILITIES</b>	<b>736,886</b>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	944,760
Restricted for:	
Capital Projects	360,392
Unrestricted	99,547
<b>TOTAL NET ASSETS</b>	<b>\$ 1,404,699</b>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**JUNE 30, 2009**

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Primary Government</b>				
<b>Governmental Activities</b>				
Instruction	\$ 1,531,587	\$ -	\$ 60,497	\$ (1,471,090)
Support Services	684,710	-	334	(684,376)
Athletics	61,339	10,162	-	(51,177)
Food Service	25,664	4,291	12,782	(8,591)
Interest on Debt	377	-	-	(377)
Total Governmental Activities	\$ 2,303,677	\$ 14,453	\$ 73,613	(2,215,611)
 <b>General revenues:</b>				
Taxes:				
Property taxes levied for general purposes				2,125,154
Property taxes levied for capital projects - sinking fund				117,016
Property taxes levied for special education through ESD				50,423
State Aid not restricted to specific purposes				102,944
Interest and investment earnings				4,893
Other				15,327
Total general revenues, contributions and transfers				2,415,757
Change in net assets				200,146
Net assets, beginning of year				1,204,553
<b>Net assets, end of year</b>				<b>\$ 1,404,699</b>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009**

	GENERAL FUND	CAPITAL PROJECT SINKING FUND	CAPITAL PROJECT 2009 TECHNOLOGY / BUS	OTHER FUNDS	TOTAL
<b>ASSETS</b>					
Cash and Investments	\$ 443,869	\$ 355,813	\$ 300,004	\$ 19,886	\$ 1,119,572
Receivables					
Accounts & Taxes	53,753	2,386	-	-	56,139
Due From Other Funds	-	12,859	-	-	12,859
Due From Other Governmental Units	21,114	-	-	-	21,114
	<u>21,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,114</u>
<b>TOTAL ASSETS</b>	<u>\$ 518,736</u>	<u>\$ 371,058</u>	<u>\$ 300,004</u>	<u>\$ 19,886</u>	<u>\$ 1,209,684</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 82,753	\$ 5,770	\$ 4,900	\$ 2,199	\$ 95,622
Accrued Liabilities	191,269	-	-	-	191,269
Due to Other Funds	12,859	-	-	-	12,859
Due to Other Governmental Units	120,902	-	-	-	120,902
	<u>120,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120,902</u>
<b>TOTAL LIABILITIES</b>	<u>407,783</u>	<u>5,770</u>	<u>4,900</u>	<u>2,199</u>	<u>420,652</u>
<b>FUND BALANCES</b>					
Reserved	-	365,288	295,104	-	660,392
Unreserved	110,953	-	-	17,687	128,640
	<u>110,953</u>	<u>-</u>	<u>-</u>	<u>17,687</u>	<u>128,640</u>
<b>TOTAL FUND BALANCES</b>	<u>110,953</u>	<u>365,288</u>	<u>295,104</u>	<u>17,687</u>	<u>789,032</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 518,736</u>	<u>\$ 371,058</u>	<u>\$ 300,004</u>	<u>\$ 19,886</u>	<u>\$ 1,209,684</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**JUNE 30, 2009**

Fund Balances - Total Governmental Funds	\$ 789,032
<p>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>	
Capital Assets - at Cost	3,036,334
Accumulated Depreciation	(2,091,574)
<p>Certain liabilities such as bonds and notes payable are not due and payable in the current period and therefore are not reported in the governmental funds</p>	
Compensated Absences Payable	(29,093)
Bonds Payable	<u>(300,000)</u>
Net Assets of Governmental Activities	<u>\$ 1,404,699</u>

See Notes to Financial Statements

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009**

	GENERAL FUND	CAPITAL PROJECT SINKING FUND	CAPITAL PROJECT 2009 BUS/TECHNOLOGY	OTHER FUNDS	TOTAL
<b>REVENUES</b>					
Local Sources	\$ 2,175,577	\$ 117,016	\$ -	\$ 14,453	\$ 2,307,046
State Sources	102,944	-	-	1,326	104,270
Federal Sources	60,831	-	-	11,456	72,287
Interest Income	1,712	3,157	4	20	4,893
Other Revenue	15,327	-	-	-	15,327
<b>TOTAL REVENUES</b>	<b>2,356,391</b>	<b>120,173</b>	<b>4</b>	<b>27,255</b>	<b>2,503,823</b>
<b>EXPENDITURES</b>					
Current					
Instruction	1,507,130	-	-	-	1,507,130
Supporting Services	657,416	3,059	4,900	-	665,375
Athletic Events	-	-	-	61,339	61,339
Food Services	-	-	-	25,664	25,664
Capital Outlay	9,483	43,813	-	-	53,296
Debt Service:					
Principal	8,772	-	-	-	8,772
Interest and Other Charges	377	-	-	-	377
<b>TOTAL EXPENDITURES</b>	<b>2,183,178</b>	<b>46,872</b>	<b>4,900</b>	<b>87,003</b>	<b>2,321,953</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>173,213</b>	<b>73,301</b>	<b>(4,896)</b>	<b>(59,748)</b>	<b>181,870</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	-	-	-	66,914	66,914
Proceeds from Bonds	-	-	300,000	-	300,000
Transfers (Out)	(66,914)	-	-	-	(66,914)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(66,914)</b>	<b>-</b>	<b>300,000</b>	<b>66,914</b>	<b>300,000</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>106,299</b>	<b>73,301</b>	<b>295,104</b>	<b>7,166</b>	<b>481,870</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>4,654</b>	<b>291,987</b>	<b>-</b>	<b>10,521</b>	<b>307,162</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 110,953</b>	<b>\$ 365,288</b>	<b>\$ 295,104</b>	<b>\$ 17,687</b>	<b>\$ 789,032</b>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$	481,870
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Add - Capital Outlay		53,296
Deduct - Depreciation Expense		(45,779)
Bond issue proceeds are recorded as revenue in governmental funds		(300,000)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Add - Principal Payments on Long-term Liabilities		8,772
Add - Decrease in Compensated Absences		<u>1,987</u>
Change in Net Assets of Governmental Activities	\$	<u>200,146</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS  
STATEMENT OF FIDUCIARY FUND NET ASSETS  
AGENCY FUNDS  
JUNE 30, 2009**

ASSETS

Cash	\$ <u>20,924</u>
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TOTAL ASSETS	\$ <u>20,924</u>
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LIABILITIES

Due to Student Groups	\$ 11,072
Scholarship Funds	<u>9,852</u>

TOTAL LIABILITIES	\$ <u>20,924</u>
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See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Mackinaw City Public Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

**REPORTING ENTITY**

The school district is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

**DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS**

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

**District-Wide Financial Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.



**MACKINAW CITY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Financial Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Capital Project – Sinking Fund – The Fund is used to record tax, interest, and other revenue for the payment of capital project type expenditures.

Capital Project – 2009 Bus / Technology

This fund will be used to expend the proceeds of a \$300,000 bond issue for bus purchases and technology upgrades.

Additionally, the District reports the following governmental types:

Special Revenue Funds - Special Revenue Funds are governmental funds used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District's Special Revenue Funds include the Food Service and Athletics Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Fiduciary Funds – The School District maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

**Cash and Investments** – Cash and investments include cash on hand, demand deposits, and savings accounts.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.”

**MACKINAW CITY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 of the previous year and then levied as of July 1. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county delinquent tax rolls. The County operates a delinquent tax revolving fund and normally pays to the District all current taxes annually prior to June 30.

**Restricted Fund Balance** – The fund balance in the Capital Projects Fund is shown as a restricted fund balance. This balance can only be used to purchase capital outlay type items related to land and building and to provide for major repairs.

**Capital Assets** – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings, building additions, and land improvements	10-50 years
Buses and other vehicles	7-15 years
Furniture and other equipment	2-15 years

**Long-Term Obligations** – In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information** – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at the fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year.

**Excess Expenditures Over Appropriations in Budgeted Funds** - The School District is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The District complied in all areas except the following expenditure areas which exceeded budgeted amounts:

**MACKINAW CITY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

<u>Fund / Function</u>	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Elementary	\$ 598,276	\$ 599,174	\$ (898)
Special Education	\$ 79,807	\$ 81,693	\$ (1,886)
Readiness	\$ 26,843	\$ 27,176	\$ (333)
Outgoing Transfer			
Food Service Fund	\$ 8,500	\$ 9,587	\$ (1,087)
Special Revenue:			
Athletic Fund	\$ 61,000	\$ 61,339	\$ (339)
Food Service Fund	\$ 18,150	\$ 25,664	\$ (7,514)

The General Fund expenditures did not exceed the budget in total.

**NOTE 3 - CASH AND INVESTMENTS**

The captions on the combined balance sheet related to cash and investments are as follows:

	<u>Imprest Cash</u>	<u>Cash/checking and Savings</u>	<u>Total</u>
Government Activities	\$ 185	\$ 1,119,387	\$ 1,119,572
Agency Funds	-	20,924	20,924
	<u>\$ 185</u>	<u>\$ 1,140,311</u>	<u>\$ 1,140,496</u>

Deposits - At year-end, the carrying amount of the District's deposits was \$1,140,311 and the bank balance was \$1,223,665 classified as to risk as follows. Outstanding checks net of deposits in transit were \$83,354.

Insured	\$ 799,457
Uninsured – Uncollateralized	340,854
	<u>\$ 1,140,311</u>

Investments – Act 217, PA 1982, authorized the School District to deposit and invest in the following:

- a. Bonds, bills, and other direct obligations of the United States or its agencies.
- b. Certificates of deposit and other savings instruments issued by a federally insured bank, savings and loan or credit union maintaining an office in Michigan.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Mutual Funds comprised of investments that are legal for direct investment by local units of government in Michigan.

**MACKINAW CITY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

- e. U.S. Government or federal agency obligation repurchase agreements.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest Rate Risk

The School District has not adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time. The District has no investments.

Concentration of Credit Risk

The District has not adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The District has no investments.

Custodial Credit Risk

The District has not adopted a policy that indicates how the District will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party. The District has no investments.

The Board of Education is authorized to designate depositories for District funds, and the funds are invested in accordance with State of Michigan statutory authority.

**NOTE 4 – RECEIVABLES**

Receivables as of year-end for the School District's individual major funds and the other nonmajor governmental funds are as follows:

	<u>General</u>	<u>Other Funds</u>
Receivables		
State of Michigan	\$ 21,114	\$ -0-
Taxes	<u>53,753</u>	<u>2,386</u>
Net Receivables	<u>\$ 74,867</u>	<u>\$ 2,386</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, there was no deferred revenue.

**MACKINAW CITY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

Due to/From Other Funds

<u>Receivable Fund</u>		<u>Payable Fund</u>	
Capital Project Fund	\$ 12,859	General Fund	\$ 12,859
<b>Total</b>	<b><u>\$ 12,859</u></b>		<b><u>\$ 12,859</u></b>
<u>Transfers In/Out</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Total</u>
General Fund	\$ 0	\$ (66,914)	\$ (66,914)
Special Revenue:			
Food Service Fund	9,587	0	9,587
Athletics	<u>57,327</u>	<u>0</u>	<u>57,327</u>
<b>Total</b>	<b><u>\$ 66,914</u></b>	<b><u>\$ (66,914)</u></b>	<b><u>\$ 0</u></b>

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity of the School District's governmental activities was as follows:

	Balance <u>June 30, 2008</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2009</u>
Capital assets not being depreciated:				
Land	\$ 33,000	\$ -	\$ -	\$ 33,000
Construction in progress	-	6,905	-	6,905
Capital assets being depreciated:				
Land improvements	488,210	-	-	488,210
Building and building improvements	1,965,176	36,908	-	2,002,084
Buses and other vehicles	174,985	-	88,645	86,340
Furniture and equipment	<u>410,312</u>	<u>9,483</u>	<u>-</u>	<u>419,795</u>
Subtotal	<u>3,038,683</u>	<u>46,391</u>	<u>88,645</u>	<u>2,996,429</u>
Accumulated depreciation:				
Land improvements	483,876	333	-	484,209
Building and building improvements	1,132,608	31,299	-	1,163,907
Buses and other vehicles	155,853	9,977	88,645	77,185
Furniture and equipment	<u>362,103</u>	<u>4,170</u>	<u>-</u>	<u>366,273</u>
Subtotal	<u>2,134,440</u>	<u>45,779</u>	<u>88,645</u>	<u>2,091,574</u>
Net capital assets being depreciated	<u>904,243</u>	<u>612</u>	<u>-</u>	<u>904,855</u>
Net governmental capital assets	<u>\$ 937,243</u>	<u>\$ 7,517</u>	<u>\$ -</u>	<u>\$ 944,760</u>

**MACKINAW CITY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 6 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:	
Instruction	\$ 24,847
Support services	<u>20,932</u>
Total	<u>\$ 45,779</u>

**NOTE 7 - LONG-TERM DEBT**

	<u>Installment</u>	<u>2009 Technology and Bus Bond</u>	<u>Compensated Absences</u>	<u>Total</u>
Payable at July 1, 2008	\$ 8,772	\$ -0-	\$ 31,080	\$ 39,852
Additions	-0-	300,000	-0-	300,000
Reductions	<u>(8,772)</u>	<u>-0-</u>	<u>(1,987)</u>	<u>(10,759)</u>
Payable at June 30, 2009	<u>\$ -0-</u>	<u>\$ 300,000</u>	<u>\$ 29,093</u>	<u>\$ 329,093</u>

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 6/30/09</u>		
			<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009 Bonds	4.00%	2012	\$ 300,000	\$ 22,633	\$ 322,633
Total			<u>\$ 300,000</u>	<u>\$ 22,633</u>	<u>\$ 322,633</u>

**INSTALLMENT PURCHASE AGREEMENT**

During the fiscal year ended June 30, 2003 the District purchased a Bluebird bus on an installment purchase contract. The contract was with the Bluebird Company. The District financed \$49,500 over 6 years. The first payment was due September 8, 2003 and the note matured on September 8, 2008.

**2009 TECHNOLOGY AND BUS BONDS**

During the fiscal year ended June 30, 2009 the voters approved a bond issue for \$300,000 specifically for technology updating and the purchase of busses. The detail payment schedule for that debt follows:

**Annual Debt Service Requirements:**

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009/10	\$ 90,000	\$ 10,033	\$ 100,033
2010/11	105,000	8,400	113,400
2011/12	<u>105,000</u>	<u>4,200</u>	<u>109,200</u>
Total	<u>\$ 300,000</u>	<u>\$ 22,633</u>	<u>\$ 322,633</u>

It is the District's policy to compensate teachers who leave employment after twelve years of service for unused sick leave at a rate of 40% of the substitute teacher's daily pay rate. The rate for support staff varies with year around employees and school year only employees and requires fifteen years of service. At June 30, 2009 the total of this compensation would be \$29,093.

**MACKINAW CITY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 8 - DEFINED BENEFIT PENSION PLAN**

All District full-time employees participate in the Michigan Public School Employees' Retirement System, ("System"), a cost-sharing multiple-employer public employee retirement system. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

All full-time employees of the District are required by law to participate in the System. All benefits vest after 10 years of service. Basic plan members may retire at age 55 with 30 years of credited service, or at age 60 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both basic and MIP plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees.

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at various rates depending on school fiscal year compensation. Basic plan members make no contributions. The District was required to contribute 16.54% of participant's salary to the System for the fiscal year ended 6/30/09, and the State of Michigan is responsible for any further contributions necessary to keep the fund actuarially sound. The School District's contributions to the MPSERS plan for the years ended June 30, 2009 2008, and 2007 were \$196,386, \$203,837, and \$223,508.

**Post-Employment Benefits**

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage. In prior years the State pre-funded these benefits using the entry age actuarial cost method. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverage. These contributions are deducted from the retiree's monthly pension. No additional contributions are required from the District on these post-employment benefits. The 16.54% noted above includes these costs.

**NOTE 9 - RISK MANAGEMENT**

The School District participates in the MASB-SEG Property and Casualty Pool and Workers Compensation Pool.

The MASB-SEG Property/Casualty Pool, Inc. was created on May 23, 1985 and organized under Public Act 138 of 1982 as amended, as a governmental group property and casualty self-insurance pool. Approximately 375 educational institutions within the State of Michigan participate in the Pool.

The Pool limits the maximum net loss that may arise from large risks or in concentrated areas of exposure by reinsuring certain levels of risks with other insurers or reinsurers. The Pool purchases excess liability coverage from one or more insurers or reinsurers to provide 100 percent coverage at each insured level.

**MACKINAW CITY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 10 – SINKING FUND EXPENDITURES**

During the year ended June 30, 2009 the District spent \$46,872 in sinking fund revenues on projects that qualify under MCL 380.1212 as follows:

Building repair/replacement	\$ 43,813
Other repairs	<u>3,059</u>
	<u>\$ 46,872</u>

**NOTE 11 – TAX REVENUE / STATE AID FUNDING**

Most school districts in Michigan fund the majority of their general fund operations with a combination of local tax revenue and State Aid which is called the foundation allowance. This foundation allowance is, with some minor adjustments, calculated by multiplying the foundation allowance per pupil times the number of pupils. Local tax revenue is subtracted from this total and State Aid makes up the balance.

In Mackinaw City Public Schools situation the local tax revenue generated is far in excess of the foundation allowance. The foundation allowance for 2008/09 school year was approximately \$1,624,298 while the locally generated tax revenue was approximately \$2,101,799. Mackinaw City Public Schools' foundation allowance is generated entirely from local property taxes with no State Aid component. Therefore, when property tax revenue is reduced total revenue is reduced. In most districts the reduction would be offset by an increase in State Aid.

During the 2007/08 fiscal year a taxpayer in the district received a consent judgment, issued by the Michigan Tax Tribunal which required the District to repay in excess of \$125,000. Approximately \$121,000 requires a general fund repayment. The liability was recorded on the books at June 30, 2008. The District's attorney is negotiating with the taxpayer in an attempt to obtain some relief, but no agreement has been reached as of June 30, 2009.

In addition to the above settled case a number of other claims have been filed with the Michigan Tax Tribunal which have the potential for reducing revenues already received as well as future revenue. The amount of reduction in revenue is unknown at this time. Additional claims may also be filed in the future which could have a substantial negative impact on tax revenue.

In the fiscal years 2006/07 and 2007/08 the District levied 18 mills on non-homestead property. The maximum millage rate under proposal A, passed by Michigan taxpayers in 1994, for Mackinaw City Public Schools is 17.7634. The dollar amounts collected in excess of the authorized millage was \$27,508 in 2006/07 and \$28,226 in 2007/08. The millage rate in the next fiscal year was reduced to offset these over collections. These amounts have been recorded as liabilities as of June 30, 2009.



**REQUIRED SUPPLEMENTARY INFORMATION**

**MACKINAW CITY PUBLIC SCHOOLS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, OTHER SOURCES (USES)  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES</b>				
Local Sources	\$ 2,092,245	\$ 2,092,245	\$ 2,192,616	\$ 100,371
State Sources	161,000	161,000	102,944	(58,056)
Federal Sources	<u>60,000</u>	<u>60,000</u>	<u>60,831</u>	<u>831</u>
 TOTAL REVENUES	 <u>2,313,245</u>	 <u>2,313,245</u>	 <u>2,356,391</u>	 <u>43,146</u>
<b>EXPENDITURES</b>				
Current:				
Instruction:				
Basic programs	1,378,084	1,393,672	1,379,161	14,511
Added Needs	139,786	147,542	127,969	19,573
Support Services:				
Student Services	79,267	72,388	65,434	6,954
General Administration	348,644	337,863	328,328	9,535
Maintenance	212,406	209,551	204,959	4,592
Transportation	64,850	57,050	53,296	3,754
Other Services	308	6,826	5,399	1,427
Tuition	-	-	-	-
Capital Outlay	10,400	9,700	9,483	217
Principal	9,500	8,772	8,772	-
Interest	<u>500</u>	<u>381</u>	<u>377</u>	<u>4</u>
 TOTAL EXPENDITURES	 <u>2,243,745</u>	 <u>2,243,745</u>	 <u>2,183,178</u>	 <u>60,567</u>
 REVENUES OVER (UNDER) EXPENDITURES	 <u>69,500</u>	 <u>69,500</u>	 <u>173,213</u>	 <u>103,713</u>
<b>OTHER FINANCING (USES)</b>				
Transfers (Out)	<u>(69,500)</u>	<u>(69,500)</u>	<u>(66,914)</u>	<u>2,586</u>
 TOTAL OTHER FINANCING (USES)	 <u>(69,500)</u>	 <u>(69,500)</u>	 <u>(66,914)</u>	 <u>2,586</u>
 REVENUES AND OVER (UNDER) EXPENDITURES AND OTHER USES	 -	 -	 106,299	 106,299
 FUND BALANCES, BEGINNING OF YEAR	 <u>165,000</u>	 <u>165,000</u>	 <u>4,654</u>	 <u>(160,346)</u>
 FUND BALANCES, END OF YEAR	 <u>\$ 165,000</u>	 <u>\$ 165,000</u>	 <u>\$ 110,953</u>	 <u>\$ (54,047)</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND OTHER SOURCES (USES)  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGETED AMOUNT</u>			VARIANCE WITH FINAL BUDGET
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
<b>LOCAL SOURCES</b>				
Taxes and Penalties	\$ 2,017,245	\$ 2,017,245	\$ 2,125,154	\$ 107,909
Interest Income	25,000	25,000	1,712	(23,288)
Miscellaneous Income	-	-	15,327	15,327
Incoming Transfers ISD	<u>50,000</u>	<u>50,000</u>	<u>50,423</u>	<u>423</u>
<b>TOTAL LOCAL SOURCES</b>	<u>2,092,245</u>	<u>2,092,245</u>	<u>2,192,616</u>	<u>100,371</u>
<b>STATE SOURCES</b>				
Categorical State Aid	161,000	161,000	102,944	(58,056)
Incoming Transfers ISD	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL STATE SOURCES</b>	<u>161,000</u>	<u>161,000</u>	<u>102,944</u>	<u>(58,056)</u>
<b>FEDERAL SOURCES</b>				
Title I	40,000	40,000	26,525	(13,475)
Title II A	-	-	13,143	13,143
ARRA	-	-	1,630	1,630
Title IID	-	-	229	229
REAP Grant	20,000	20,000	19,199	(801)
Incoming Transfers ISD & Other	<u>-</u>	<u>-</u>	<u>105</u>	<u>105</u>
<b>TOTAL FEDERAL SOURCES</b>	<u>60,000</u>	<u>60,000</u>	<u>60,831</u>	<u>831</u>
<b>TOTAL REVENUE</b>	<u>\$ 2,313,245</u>	<u>\$ 2,313,245</u>	<u>\$ 2,356,391</u>	<u>\$ 43,146</u>
<b>EXPENDITURES</b>				
<b>INSTRUCTION</b>				
Basic Programs:				
Elementary	\$ 606,268	\$ 598,276	\$ 599,174	\$ (898)
Junior High	102,300	128,460	124,808	3,652
Readiness	26,543	26,843	27,176	(333)
Secondary	<u>642,973</u>	<u>640,093</u>	<u>628,003</u>	<u>12,090</u>
Total Basic Programs	<u>1,378,084</u>	<u>1,393,672</u>	<u>1,379,161</u>	<u>14,511</u>
Added Needs:				
Special Education	78,226	79,807	81,693	(1,886)
Title I	<u>61,560</u>	<u>67,735</u>	<u>46,276</u>	<u>21,459</u>
Total Added Needs	<u>139,786</u>	<u>147,542</u>	<u>127,969</u>	<u>19,573</u>
<b>TOTAL INSTRUCTION</b>	<u>1,517,870</u>	<u>1,541,214</u>	<u>1,507,130</u>	<u>34,084</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND OTHER SOURCES (USES)  
BUDGET AND ACTUAL (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGETED AMOUNT</u>			VARIANCE WITH FINAL BUDGET
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
<b>SUPPORTING SERVICES</b>				
Student Services:				
Guidance/Counseling	\$ 52,121	\$ 52,121	\$ 47,868	\$ 4,253
Substitute Teachers	12,000	5,007	2,823	2,184
Health Services	200	200	200	-
Student Activity	14,705	14,973	14,456	517
Library	<u>241</u>	<u>87</u>	<u>87</u>	<u>-</u>
Total Student Services	<u>79,267</u>	<u>72,388</u>	<u>65,434</u>	<u>6,954</u>
General Administration:				
Board of Education	12,300	10,892	10,892	-
Executive Administration	202,156	199,118	193,806	5,312
Contractual - Admin Assistant	53,778	53,778	53,778	-
Office of Principal	<u>80,410</u>	<u>74,075</u>	<u>69,852</u>	<u>4,223</u>
Total General Administration	<u>348,644</u>	<u>337,863</u>	<u>328,328</u>	<u>9,535</u>
Plant Operation and Maintenance	212,406	209,551	204,959	4,592
Pupil Transportation	64,850	57,050	53,296	3,754
Other Services	308	6,826	5,399	1,427
Tuition	-	-	-	-
Capital Outlay	10,400	9,700	9,483	217
Principal	9,500	8,772	8,772	-
Interest	<u>500</u>	<u>381</u>	<u>377</u>	<u>4</u>
<b>TOTAL SUPPORTING SERVICES</b>	<u>725,875</u>	<u>702,531</u>	<u>676,048</u>	<u>26,483</u>
<b>OUTGOING TRANSFERS</b>				
Food Service Fund	8,500	8,500	9,587	(1,087)
Athletics Fund	<u>61,000</u>	<u>61,000</u>	<u>57,327</u>	<u>3,673</u>
<b>TOTAL OUTGOING TRANSFERS</b>	<u>69,500</u>	<u>69,500</u>	<u>66,914</u>	<u>2,586</u>
<b>TOTAL EXPENDITURES AND TRANSFERS OUT</b>	<u>\$ 2,313,245</u>	<u>\$ 2,313,245</u>	<u>\$ 2,250,092</u>	<u>\$ 63,153</u>

See Notes to Financial Statements

**OTHER SUPPLEMENTARY INFORMATION**

**MACKINAW CITY PUBLIC SCHOOLS  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2009**

	SPECIAL REVENUE FUNDS		
	ATHLETIC FUND	FOOD SERVICE FUND	TOTAL
<b>ASSETS</b>			
Cash	\$ 9,790	\$ 10,096	\$ 19,886
Receivables:			
Due From Other Funds	-	-	-
Due From Other Governmental Units	-	-	-
TOTAL ASSETS	\$ 9,790	\$ 10,096	\$ 19,886
 <b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ -	\$ 2,199	\$ 2,199
TOTAL LIABILITIES	-	2,199	2,199
 <b>FUND BALANCE</b>			
Reserved	9,790	7,897	17,687
Unreserved	-	-	-
TOTAL FUND BALANCES	9,790	7,897	17,687
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,790	\$ 10,096	\$ 19,886

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2009**

	SPECIAL REVENUE FUNDS		
	ATHLETIC FUND	FOOD SERVICE FUND	TOTAL
	REVENUES		
Local Sources	\$ 10,162	\$ 4,291	\$ 14,453
Interest	7	13	20
State Sources	-	1,326	1,326
Federal Sources	-	11,456	11,456
	10,169	17,086	27,255
TOTAL REVENUES	10,169	17,086	27,255
EXPENDITURES			
Current			
Athletics	61,339	-	61,339
Food Service	-	25,664	25,664
	61,339	25,664	87,003
TOTAL EXPENDITURES	61,339	25,664	87,003
REVENUES OVER (UNDER) EXPENDITURES	(51,170)	(8,578)	(59,748)
OTHER FINANCING SOURCES (USES)			
Transfers In	57,327	9,587	66,914
	57,327	9,587	66,914
TOTAL OTHER FINANCING SOURCES (USES)	57,327	9,587	66,914
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	6,157	1,009	7,166
FUND BALANCES, BEGINNING OF YEAR	3,633	6,888	10,521
FUND BALANCES, END OF YEAR	\$ 9,790	\$ 7,897	\$ 17,687

See Notes to Financial Statements



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

October 2, 2009

Board of Education  
Mackinaw City Public Schools  
Mackinaw City, Michigan 49701

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mackinaw City Public Schools as of and for the year ended June 30, 2009, which collectively comprise the Mackinaw City Public Schools' basic financial statements and have issued my report thereon dated October 2, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mackinaw City Public Schools' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mackinaw City Public Schools' internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Mackinaw city Public Schools' internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mackinaw City Public Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Mackinaw City Public Schools' financial statements that is more than inconsequential will not be prevented or detected by Mackinaw City Public Schools' internal control. I consider the following deficiency to be a significant deficiency in internal control over financial reporting.



Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112 requires management to prepare annual financial statements in accordance with GASB Statement Number 34. The District's auditor prepares these statements.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Mackinaw Public Schools' internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiency described above is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mackinaw City Public Schools' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I have reported to management of Mackinaw city Public Schools in a separate letter dated October 2, 2009.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies, pass-through entities, the Michigan Department of Education, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



THOMAS R. ZICK CPA, P.C.  
CERTIFIED PUBLIC ACCOUNTANT



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## REPORT TO MANAGEMENT / BOARD OF EDUCATION

October 2, 2009

Board of Education  
Mackinaw City Public Schools  
Mackinaw City, Michigan 49701

I have audited the financial statements of Mackinaw City Public Schools for the year ended June 30, 2009, and have issued my reports thereon dated October 2, 2009. Professional standards require that I provide you with the following information related to my audit.

### **My Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in my engagement letter, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

In planning and performing my audit, I considered Mackinaw City Public Schools' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. I also considered internal control over compliance with requirements that could have a direct and material effect on the financial statements.

As part of obtaining reasonable assurance about whether Mackinaw City Public Schools' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination of Mackinaw City Public Schools' compliance with those requirements.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mackinaw City Public Schools are described in Note 1 to the financial statements. I noted no transactions entered into by Mackinaw City Public Schools during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Some accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience and past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. My conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Mackinaw City Public Schools' financial reporting process (that is, cause future financial statements to be materially misstated). All of the adjustments, I proposed, have been recorded by Mackinaw City Public Schools.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the course of my audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Mackinaw City Public Schools' financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all of the relevant facts. To my knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Mackinaw City Public Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition to my retention.

### **Difficulties Encountered in Performing the Audit**

I encountered no significant difficulties in dealing with management in performing and completing my audit.

**Comments and Recommendations**

The following is a summary of my observations with suggestions for improvements I believe should be brought to your attention.

**BUDGETS**

The School District is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The District complied in all areas except the following expenditure areas which exceeded budgeted amounts:

<u>Fund / Function</u>	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Elementary	\$ 598,276	\$ 599,174	\$ (898)
Special Education	\$ 79,807	\$ 81,693	\$ (1,886)
Readiness	\$ 26,843	\$ 27,176	\$ (333)
Outgoing Transfer			
Food Service Fund	\$ 8,500	\$ 9,587	\$ (1,087)
Special Revenue:			
Athletic Fund	\$ 61,000	\$ 61,339	\$ (339)
Food Service Fund	\$ 18,150	\$ 25,664	\$ (7,514)

Care should be taken in future years to assure the budgets are amended prior to the year end to insure budget overages do not occur. The Districts' expenditures did not exceed the budget in total for the General Fund. This area was much improved over prior years.

**FUND BALANCE**

The following schedule shows the general fund annual deficit and ending fund balance for the past six years:

<u>Fiscal Year Ending</u>	<u>Annual Surplus (deficit)</u>	<u>Ending Fund Balance</u>
6/30/03	\$ (39,744)	\$ 934,213
6/30/04	\$ (217,610)	\$ 716,603
6/30/05	\$ (235,519)	\$ 481,084
6/30/06	\$ (318,880)	\$ 162,204
6/30/07	\$ (103,699)	\$ 58,505
6/30/08	\$ (53,851)	\$ 4,654
6/30/09	\$ 106,299	\$ 110,953

The board and management need to closely evaluate the 2009/10 budget in order to maintain an adequate fund balance.

For 2008/09 there were no substantial tax tribunal adjustments and the liabilities still reflect the unpaid balance of the 2007/08 tax tribunal adjustment which is presently being negotiated by the District's attorney.

**PROPERTY TAX REVENUE**

Now that the district no longer receives foundation allowance State aid, monitoring the tax collection process is extremely important. Any lost revenue from tax tribunal adjustments will come directly from your revenue. Homestead denials will directly increase your revenue, so a monthly reconciliation of the taxable value should be done. This will require monthly monitoring of the taxable values and reconciliations of prior year State aid adjustments, if any. It is essential that monthly taxable value reports be obtained from the Department of Education website and any changes should be verified with County officials.

The millage rate which was levied in 2006/07 and 2007/08 exceeded the 17.7634 mills allowed under Proposal A. However, you corrected this problem with the 2009/10 levy which is presently being collected.

**DUE TO / DUE FROM**

The General Fund still owes the Sinking Fund \$12,859. Part of this has been owed for two fiscal years. This occurred because the delinquent tax payoff from Cheboygan was deposited entirely into the General Fund, while part of the proceeds belonged to the Sinking Fund.

I suggest these funds be transferred.

This report is intended solely for the information and use of the Mackinaw City Public Schools' management, Board of Education, the Michigan Departments of Treasury and Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



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